

# State of Tennessee

## Indebtedness Report



December 31, 2013



STATE OF TENNESSEE

**Justin P. Wilson**  
**Comptroller**

**COMPTROLLER OF THE TREASURY**

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

March 12, 2014

The Honorable Bill Haslam, Governor  
The Honorable Ron Ramsey, Speaker of the Senate  
The Honorable Beth Harwell, Speaker of the House of Representatives  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide information on the four state debt issuers: The State Funding Board for the Tennessee General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report reflects the outstanding indebtedness both at June 30, 2013 and at December 31, 2013. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), the Energy Efficient Schools Initiative (EESI) and the State Infrastructure Fund (SIF).

Note that both the General Obligation Debt and the total State Indebtedness decreased.

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

Justin P. Wilson  
Comptroller of the Treasury

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# State of Tennessee Indebtedness Report

(Unaudited)

	<u>a/o June 30, 2013</u>		<u>a/o December 31, 2013</u>		<u>Variance</u> <u>Increase (Decrease)</u>	
	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of</u> <u>loans/projects</u>	<u>Debt Outstanding</u>
<b><u>Long-term General Obligation debt</u></b>						
General Obligation Bonds Outstanding	1,930	\$ 1,978,410,000	1,930	\$ 1,882,885,000	-	\$ (95,525,000)
<b><u>General Obligation Commercial Paper</u></b>						
Tax-Exempt	123	\$ 187,747,000	134	\$ 198,367,000	11	\$ 10,620,000
Taxable	3	27,399,000	3	25,999,000	-	(1,400,000)
Total Commercial Paper outstanding	126	\$ 215,146,000	137	\$ 224,366,000	11	\$ 9,220,000
<b><u>Tennessee Local Development Authority</u></b>						
Bonds issued and outstanding	35	\$ 6,585,000	35	\$ 6,585,000	-	\$ -
<b><u>Tennessee State School Bond Authority</u></b>						
Higher Education Facilities Program						
Bonds outstanding	181	\$ 1,168,120,000	192	\$ 1,310,755,000	11	\$ 142,635,000
Commercial Paper outstanding:						
Tax-Exempt	35	\$ 180,668,000	28	\$ 82,100,000	(7)	\$ (98,568,000)
Taxable	8	28,761,000	7	35,961,000	(1)	7,200,000
Total Commercial Paper	43	\$ 209,429,000	35	\$ 118,061,000	(8)	\$ (91,368,000)
Qualified Zone Academy Bond Program						
Bonds outstanding	16	\$ 43,920,000	16	\$ 43,920,000	-	\$ -
Qualified School Construction Bonds						
Series 2009	13	\$ 177,000,000	13	\$ 177,000,000	-	\$ -
Series 2010	15	\$ 212,440,000	15	\$ 212,440,000	-	\$ -
<b><u>Tennessee Housing Development Agency</u></b>						
Mortgage Loans/Principal Outstanding	19,568	\$ 1,523,690,000	19,672	\$ 1,260,260,000	104	\$ (263,430,000)
("NIBP") (2009 Bond Resolution)	5,697	\$ 593,215,000	5,475	\$ 544,505,000	(222)	(48,710,000)
Mortgage Loans / Principal Outstanding	25,265	\$ 2,116,905,000	25,147	\$ 1,804,765,000	(118)	\$ (312,140,000)
<b>Total State Indebtedness:</b>	<b>a/o 06/30/13</b>	<b>\$ 6,127,955,000</b>	<b>a/o 12/31/13</b>	<b>\$ 5,780,777,000</b>		<b>\$ (347,178,000)</b>

# Authorized/Unissued Debt

(Unaudited)

	<u>a/o June 30, 2013</u>	<u>a/o December 31, 2013</u>	<u>Variance Increase (Decrease)</u>
<b>General Obligation <sup>1)</sup></b>	\$ 1,966,227,802	\$ 1,848,505,268	\$ (117,722,534)
<b>Tennessee Local Development Authority (TLDA)</b>	\$ 305,000,000 <sup>2)</sup>	\$ 305,000,000 <sup>2)</sup>	\$ -
<b>TLDA Capital Projects</b>	\$ 75,000,000	\$ 75,000,000	\$ -
<b>Tennessee Housing Development Agency (THDA)</b>	\$ 813,095,000 <sup>2)</sup>	\$ 1,125,235,000 <sup>2)</sup>	\$ 312,140,000
<b>Tennessee State School Bond Authority (TSSBA)</b>	\$ 549,460,149 <sup>3)</sup>	\$ 396,086,149 <sup>3)</sup>	\$ (153,374,000)
<b>Total Authorized/Unissued Debt</b>	<u>\$ 3,708,782,951</u>	<u>\$ 3,749,826,417</u>	<u>\$ 41,043,466</u>

## Footnotes:

<b>1)</b>	Beg. Authorized/Unissued:	\$ 1,747,306,223	\$ 1,966,227,802	\$ 218,921,579
	Less: Canceled 2012/2013	(47,078,421)	-	\$ 47,078,421
	New Bond Authorization 2013-14	266,000,000	-	\$ (266,000,000)
	Less: Canceled 2013/2014	-	(117,722,534)	\$ (117,722,534)
	Less: Bonds Issued 2012 Series B	-	-	\$ -
	Authorized/Unissued a/o 06/30/13:	<u>\$ 1,966,227,802</u>	<u>\$ 1,848,505,268</u>	<u>\$ (117,722,534)</u>
			A/U a/o 12/31/13:	
	TDOT Bond Authorization:	\$ 750,600,000	\$ 646,000,000	\$ (104,600,000)
	TDOT Bond Authorization - Bridges	233,400,000	233,400,000	\$ -
	Capital Projects Bond Authorization:	982,227,802	969,105,268	\$ (13,122,534)
		<u>\$ 1,966,227,802</u>	<u>\$ 1,848,505,268</u>	<u>\$ (117,722,534)</u>

2) Amount indicated is the unissued remaining statutory debt limit.

3) Amount indicated is capital projects approved by the TSSBA and the State Building Commission.

# General Obligation Debt Information

## **General Obligation Debt**

The State Funding Board debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

- Principal amount of bonds matured in the amount of \$95,525,000
- Commercial paper outstanding increased by \$9.22 million and was comprised of new issuance totaling \$15 million and repayment totaling \$5.78 million.
- Bond authorization was canceled in the amount of \$117,722,534.

## Legislation Enacted in 2013

The General Assembly passed legislation that demonstrated Tennessee's commitment to keep its financial house in order. The effects of the changes will not be immediate; however, the actions will ensure long-term financial sustainability for the State.

### **Public Chapter 176 - General Obligation Bond security pledge reform**

To remove any ambiguity of the state's GO pledge. It provided that all future GO debt will be guaranteed with fees, taxes, and revenues allocated to the general, highway, and debt service funds and a clear debt limit was established. The statute clearly states that debt will always be paid first (in unlikely event it is necessary to prevent payment default) and exemplifies the state's willingness to support its debt.

### **Public Chapter 296 - Pension plan reform**

To limit the unfunded pension liability to those employees hired prior to July 1, 2014. Commencing June 30, 2014, new employees will participate in a new pension plan that will be funded on a cash basis each year. The state's liability on this new plan is limited.

### **Public Chapter 175 - Reserve for revenue fluctuations**

To provide for more sufficient reserves, the legislature increased the state's funding goal for the rainy day fund from 5% to 8% of state tax revenues allocated to the general fund and education fund.

### **Public Chapter 174 - TSSBA - redefinition of "institution"**

To redefine the term "institution" and strengthen the credit position of current and future bondholders. It also clarified and expanded the amount of appropriation subject to the intercept and increased debt service coverage and will provide additional debt capacity for the TSSBA.

### **Public Chapter 453 – State appropriations**

To increase the state's rainy day fund to \$100 million.

## THDA Bond Resolution

THDA's 2013 bond resolution eliminates the "moral obligation" pledge of the State for THDA bonds.

# Other Information on Outstanding Debt

## **Tennessee Local Development Authority (TLDA)**

The TLDA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

## **Tennessee State School Bond Authority (TSSBA)**

The TSSBA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

### **Higher Education Facilities Program**

- Bond principal in the amount of \$6,495,000 matured during this time period.
- Commercial paper outstanding increased by \$45 million for payment of construction expenditures.
- On November 21, 2013, the Authority issued new money bonds in the amount of \$149,130,000 and as of December 6, 2013, the Authority redeemed commercial paper in the amount of \$135,755,922.

### **Qualified Zone Academy Bond Program (QZAB)**

- This program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997.
- Security for the QZABs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Education Program Facilities Bonds.
- As of December 31, 2013, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$27,450,120.

### **Qualified School Construction Bond Program (QSCB)**

- This program is a federal tax credit (2009)/federal subsidy (2010) program created under the American Recovery and Reinvestment Act (ARRA) of 2009.
- Security for the QSCBs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes, and there is no cross default to the Higher Education Program Facilities Bonds.
- As of December 31, 2013, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$68,515,554.

## **Tennessee Housing Development Agency (THDA)**

The THDA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

- A total of \$360,000,000 of the bonds issued under the 2009 Resolution was purchased by Fannie Mae and Freddie Mac pursuant to the Single Family New Issue Bond Program ("the NIBP") announced by the United States Department of the Treasury, Fannie Mae and Freddie Mac. Due to the special program requirements, a new general bond resolution (The Housing Finance Program) was drafted and approved.
- As of December 31, 2011, THDA had issued its full allotment of bonds under the NIBP program.
- Neither the full faith and credit nor the taxing power of the state, or of any political subdivision thereof is pledged for the payment of principal or interest on the Housing Finance Program bonds.
- The balance of \$2,116,095 excludes refunded bonds and notes.



# Bond Ratings on Outstanding Debt

## **BOND RATINGS**

	<b><u>Fitch</u></b>	<b><u>Moody's</u></b>	<b><u>S &amp; P</u></b>
State of Tennessee	AAA	Aaa	AA+
Tennessee Local Development Authority	AA	Aa3	AA+ <sup>1</sup>
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 *	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	AA+	Aa1 *	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 *	AA
THDA 1974 Resolution	n/a	Aa2	AA
THDA 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (NIBP)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

### **\* Explanation of Moody's Investor Services ratings:**

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

<sup>1</sup> The Standard & Poor's rating for the Tennessee Local Development Authority was downgraded to AA+ from AAA on August 31, 2012 due to the diminishing size of the program.

# Annual Debt Service for State of Tennessee General Obligation Bonds

(Unaudited)

	PRINCIPAL		INTEREST		DEBT SERVICE REQUIRED	
<b>FY2014</b>	\$	160,460,000 (1)	\$	82,639,017 (1)	\$	243,099,017
<b>FY2015</b>		152,025,000		75,376,398		227,401,398
<b>FY2016</b>		146,270,000		68,737,850		215,007,850
<b>FY2017</b>		140,415,000		62,384,957		202,799,957
<b>FY2018</b>		131,720,000		55,828,357		187,548,357
<b>FY2019</b>		122,425,000		50,237,330		172,662,330
<b>FY2020</b>		119,405,000		45,033,100		164,438,100
<b>FY2021</b>		112,585,000		39,943,813		152,528,813
<b>FY2022</b>		112,755,000		34,925,588		147,680,588
<b>FY2023</b>		105,060,000		30,092,236		135,152,236
<b>FY2024</b>		104,795,000		25,821,573		130,616,573
<b>FY2025</b>		96,185,000		22,041,132		118,226,132
<b>FY2026</b>		96,460,000		18,388,233		114,848,233
<b>FY2027</b>		88,325,000		14,750,358		103,075,358
<b>FY2028</b>		84,195,000		11,467,059		95,662,059
<b>FY2029</b>		77,240,000		7,892,529		85,132,529
<b>FY2030</b>		51,335,000		4,677,431		56,012,431
<b>FY 2031</b>		39,540,000		2,475,996		42,015,996
<b>FY 2032</b>		30,215,000		852,655		31,067,655
<b>FY 2033</b>		7,000,000		105,000		7,105,000
	\$	1,978,410,000	\$	653,670,612	\$	2,632,080,612

(1) As of December 31, 2013, \$42,389,364 in interest had been paid and \$95,525,000 in principal had been redeemed.

# Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>a/o June 30, 2013</u>		<u>a/o December 31, 2013</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>
<b><u>State Revolving Fund Loan Program</u></b>						
Clean Water (Sewerage)						
Principal Outstanding	175	\$ 367,754,021	171	\$ 352,102,873	(4)	\$ (15,651,148)
Drinking Water						
Principal Outstanding	86	\$ 95,307,883	83	\$ 91,316,820	(3)	\$ (3,991,063)
<b><u>Energy Efficient Schools Initiative (EESI)</u></b>	51	\$ 59,268,409	51	\$ 58,634,706	-	\$ (633,703)
<b><u>State Infrastructure Fund (SIF)</u></b>	1	\$ 56,670	1	\$ 107,715	-	\$ 51,045

# Loan Programs Information

## **State Revolving Fund Loan Program**

The State administers the State Revolving Loan Funds Programs for the Local Governments. The programs currently have no outstanding indebtedness in the capital marketplace. The programs are funded by federal and state capitalization grants. Therefore, the dollar amount of loans managed for the State Revolving Loan Programs is not included in the Total State Indebtedness.

### **Clean Water State Revolving Fund (CWSRF)**

- The loan balance decrease was comprised of 5 loan prepayments totaling \$15.5 million. There was 1 new loan added to the program and 1 loan amount was increased. The debt outstanding will increase over time as the funds are drawn to pay project costs.

### **Drinking Water State Revolving Fund (DWSRF)**

- The loan balance decrease was comprised of 5 loan prepayments totaling \$4.3 million. There were 2 new loans added to the program. The debt outstanding will increase over time as the funds are drawn to pay project costs.

## **Energy Efficient Schools Initiative (EESI)**

The Energy Efficient Schools Initiative (EESI) was established by the Tennessee General Assembly in 2008 with \$90 million. Over \$87 million has been approved for projects to improve the energy efficiency in Tennessee's public K-12 schools. Purposes of the Energy Efficient Schools Council, also created by this legislation, include providing grants and loans for capital outlay projects and establish and support energy management programs. The enabling legislation also created a twelve member council (Council – see below)) to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs.

- From June 30, 2013, to December 31, 2013, the loan balance decrease was comprised of approximately \$3 million in loan repayments and \$2.4 million in loan disbursements.

## **State Infrastructure Fund (SIF)**

The State Infrastructure Program provides assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

- One disbursement was made in August 2013, in the amount of \$51,045.

# **Board Membership**

## **State Funding Board**

Governor Bill Haslam, Chairman  
Comptroller Justin P. Wilson, Secretary  
Secretary of State Tre Hargett  
Treasurer David Lillard  
Larry Martin, Commissioner of Finance and Administration

## **Tennessee Local Development Authority**

Governor Bill Haslam, Chairman  
Secretary of State Tre Hargett, Vice-Chairman  
Comptroller Justin P. Wilson, Secretary  
Treasurer David Lillard  
Larry Martin, Commissioner of Finance and Administration  
Mr. Pat Wolfe, Washington County, Tennessee, Senate Appointee  
Ms. Betsy Crossley, Brentwood, Tennessee, House Appointee

## **Tennessee State School Bond Authority**

Governor Bill Haslam, Chairman  
Comptroller Justin P. Wilson, Secretary  
Secretary of State Tre Hargett  
Treasurer David Lillard  
Larry Martin, Commissioner of Finance and Administration  
Dr. Joseph DiPietro, President, University of Tennessee  
John G. Morgan, Chancellor, Tennessee Board of Regents

## **Bond Finance Committee**

## **Tennessee Housing Development Agency**

Brian Bills, Chairman  
Comptroller Justin P. Wilson, Secretary  
Secretary of State Tre Hargett  
Treasurer David Lillard  
Larry Martin, Commissioner of Finance and Administration

# ACKNOWLEDGEMENTS

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Kayla Carr, CPA  
Brittany Evans  
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Donna Kaukas

Betsy Knotts  
Cindy Liddell  
Steve Osborne  
Kathy Palmer  
Ron Queen, CPA  
Sharon Schmucker, CPA  
Alicia Scott

## **Tennessee Housing Development Agency**

Trent Ridley, Chief Financial Officer  
Wayne Beard, Director of Finance